

[IZA News](#)[About IZA](#)[Organization Chart](#)[People](#)[Research](#)[Labor Policy](#)[Publications](#)[Discussion Papers](#)[Policy Papers](#)[Standpunkte](#)[Books](#)[Research Reports](#)[IZA Compact](#)[IZA in the Press](#)[Publication Record](#)[Journals](#)[Events](#)[IZA Prize / YLE Award](#)[Teaching](#)[Links / Resources](#)[Press](#)

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Simultaneous Search and Network Efficiency

by Pieter Gautier, Christian Holzner
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Abstract:

When workers send applications to vacancies they create a network. Frictions arise because workers typically do not know where other workers apply to and firms do not know which candidates other firms consider. The first coordination friction affects network formation, while the second coordination friction affects network clearing. We show that those frictions and the wage mechanism are in general not independent. The wage mechanism determines both the distribution of networks that can arise and the number of matches on a given network. Equilibria that exhibit wage dispersion are inefficient in terms of network formation. Under complete recall (firms can go back and forth between all their candidates) only wage mechanisms that allow for ex post Bertrand competition generate the maximum matching on a realized network.

Text: See [Discussion Paper No. 5859](#)

[Back](#)